

**DIRECT TESTIMONY OF**

**DAWN M. HIPPI**

**ON BEHALF OF**

**THE SOUTH CAROLINA OFFICE OF REGULATORY STAFF**

**DOCKET NO. 2021-130-S**

1   **Q.     PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND OCCUPATION.**

2   A.           My name is Dawn M. Hipp. My business address is 1401 Main Street, Suite 900,  
3               Columbia, South Carolina, 29201. I am employed by the State of South Carolina as the  
4               Chief Operating Officer of the Office of Regulatory Staff ("ORS").

5   **Q.     PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.**

6   A.           I received my bachelor's degree in political science from Minnesota State  
7               University - Moorhead. Prior to my employment with ORS, I managed the financial,  
8               operations, and regulatory aspects for an environmental company that provided turn-key  
9               hazardous waste consulting services for the United States Department of Defense.

10              In 2004, I joined ORS as a Program Specialist for the Water and Wastewater  
11              Department. I became a Director in 2007, and in 2018, was promoted to the position of  
12              Chief Operating Officer with responsibility for all ORS operational functions within the  
13              following divisions: Energy Office; Utility Rates and Services; Broadband;  
14              Communications; and Safety.

**Q. HAVE YOU TESTIFIED BEFORE THE PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA (“COMMISSION”)?**

A. Yes. I have testified on numerous occasions before the Commission relating to general rate cases, consumer complaints, and other regulatory proceedings.

**Q. WHAT IS THE MISSION OF THE OFFICE OF REGULATORY STAFF?**

A. ORS represents the public interest as defined by the South Carolina General Assembly in S.C. Code Ann. § 58-4-10(B) (Supp. 2020) as follows:

[T]he concerns of the using and consuming public with respect to public utility services, regardless of the class of customer, and preservation of continued investment in and maintenance of utility facilities so as to provide reliable and high-quality utility services.

**Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?**

A. The purpose of my testimony is to set forth ORS’s findings and recommendations resulting from ORS’s examination of Synergy Utilities, L.P.’s (“Synergy”) and South Carolina Water Utilities, Inc.’s (“SCWU”) (collectively, the “Joint Applicants”) request for approval of a sale of assets, including sewer facilities, territories, and certificates of public convenience and necessity, from Synergy to SCWU (“Application”). Specifically, my direct testimony addresses the following topics:

1. Overview of Joint Applicants locations, service, customers, and current utility compliance with Commission rules and regulations;
2. Impacts to customers of the proposed Application;
3. Customer complaints - Northwood Estates (“Northwood”) Homeowners Association (“HOA”); and
4. Summary of ORS recommendations.

**Q. ARE THE FINDINGS OF YOUR REVIEW CONTAINED IN THIS TESTIMONY?**

A. Yes. My testimony details ORS's findings and recommendations.

**Q. WAS THE REVIEW PERFORMED BY YOU OR UNDER YOUR SUPERVISION?**

A. Yes. The review to which I testify was performed by me or under my supervision.

**Q. PLEASE EXPLAIN HOW YOUR DIRECT TESTIMONY AND PARTICIPATION IN THIS PROCEEDING REPRESENT THE PUBLIC INTEREST.**

A. The Joint Applicants state the sale of assets from Synergy to SCWU is in the public interest because Synergy no longer wishes to own the utility, SCWU has the financial resources to acquire the assets, and the customers will not be materially affected by the transaction. The Joint Applicants are focused on achieving the highest possible return for their respective owners and maintaining the status quo. In contrast, ORS's participation in this docket is focused on providing the customers quantifiable merger benefits and efficiencies including, but not limited to, lower costs and service improvements.

**Locations, Service, Customers, and Utility Compliance**

**Q. PLEASE PROVIDE AN OVERVIEW OF THE LOCATIONS, SERVICE, AND CUSTOMERS SERVED BY SYNERGY AND SCWU.**

A. Synergy owns and operates wastewater collection and treatment facilities. As of December 31, 2020, Synergy provided wastewater services to 1,105 residential and commercial customers located in portions of Lexington, Fairfield, Orangeburg, and Richland counties. Synergy is classified as a Class "A" wastewater utility by the National Association of Regulatory Commissioners ("NARUC"). SCWU owns and operates water distribution and wastewater collection and treatment facilities. As of December 31, 2020, SCWU provided water service to 403 residential, commercial and industrial customers and

wastewater service to 735 residential and commercial customers located in Beaufort County. SCWU is currently classified as a Class “B” water and wastewater utility by NARUC. Should the proposed sale be approved, SCWU would be classified as a Class “A” wastewater utility and a Class “B” water utility by NARUC.

**Q. PLEASE EXPLAIN THE CORPORATE STRUCTURES OF SYNERGY AND SCWU.**

A. Synergy is a South Carolina limited partnership organized under the laws of the State of South Carolina. Synergy is in good standing with the South Carolina Secretary of State and, currently, Synergy is in compliance with the Commission’s requirements related to submittal of Annual Report, Performance Bond and Gross Receipt payment.

SCWU is a corporation organized under the laws of the State of Delaware and is authorized to do business in the State of South Carolina. SCWU is in good standing with the South Carolina Secretary of State and, currently, SCWU is in compliance with the Commission’s requirements related to submittal of Annual Report, Performance Bond and Gross Receipt payment.

SCWU is a wholly owned subsidiary of SouthWest Water Company (“SouthWest”), a Delaware limited liability company. SouthWest owns other water and wastewater utilities that are regulated by the Commission including Kiawah Island Utility, Inc. (“KIU”), Palmetto Wastewater Reclamation, Inc. (“PWR”), South Carolina Water Utilities – CUC, Inc. (“SCWU-CUC”), and South Carolina Water Utilities – PUI, Inc. (“PUI”).

**Q. DO EITHER SYNERGY OR SCWU HAVE ON-GOING ENVIRONMENTAL COMPLIANCE MATTERS WITH SOUTH CAROLINA DEPARTMENT OF HEALTH AND ENVIRONMENTAL CONTROL (“SCDHEC”)?**

A. No. According to the SCDHEC, the Raintree Acres wastewater treatment plant (“WWTP”) is classified as a temporary treatment facility and is subject to future interconnection with a regional provider. Synergy is operating the Raintree Acres WWTP under an expired National Pollutant Discharge Elimination System (“NPDES”) Permit. In response to ORS discovery, SCWU stated it intends to continue to operate the Raintree WWTP and that SCWU received confirmation from SCDHEC that the expired NPDES Permit may be modified to reflect the change in ownership from Synergy to SCWU.<sup>1</sup>

**Q. PLEASE DISCUSS THE AMOUNT OF THE PERFORMANCE BOND REQUIRED TO COMPLY WITH S.C. CODE ANN. § 58-5-720.**

A. Synergy currently has on file with the Commission a performance bond in the amount of \$350,000 for sewer with surety provided by an Irrevocable Standby Letter of Credit issued by Branch Banking and Trust Company. An approval of this acquisition would result in the cancellation of Synergy’s Certificate of Public Convenience and Necessity and subsequent cancellation of Synergy’s performance bond.

SCWU currently has on file with the Commission two (2) performance bonds; one (1) in the amount of \$350,000 for water and one (1) in the amount of \$350,000 for sewer with surety of each bond provided by Atlantic Specialty Insurance Company. An approval of this acquisition will not require a change to the amount of SCWU’s performance bonds.

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<sup>1</sup> Joint Applicants Responses to ORS’s First and Continuing Request for Books, Records, and Other Information Questions 41 and 52 (“AIR 1-41 and 1-52”).

Therefore, ORS respectfully requests that, if the asset sale and transfer is approved, the Commission continue to require SCWU to maintain performance bonds for water and sewer operations in the amounts of \$350,000 each in compliance with S.C. Code Ann. § 58-5-720 (2015).

**Impact of the Proposed Application to Customers**

**Q. DOES THE SALE OF ASSETS PROPOSED BY THE JOINT APPLICANTS PROVIDE CUSTOMERS WITH BENEFITS THAT CANNOT BE ACHIEVED BUT FOR THE ACQUISITION BY SCWU?**

A. No. In the Application and the direct testimonies of Joint Applicant witnesses Craig Sorensen and Keith Parnell, SCWU committed to provide customers with “service enhancements for billing and customer service.”<sup>2</sup> The enhancements are detailed by the Joint Applicants as (1) customer access to electronic billing, payment options including online credit card transactions, and (2) access to a 24-hour customer service team.<sup>3</sup> Currently, Synergy customers are not able to view or pay their monthly sewer bills via a web portal; however, Synergy does offer customers the ability to pay via debit/credit card by calling the Synergy office. In addition, customers have the option to auto-draft monthly sewer payments via credit/debit card. Synergy also maintains a website ([www.synergyutilitieslp.business.site](http://www.synergyutilitieslp.business.site)) and an after-hours answering service. In response to ORS discovery, Synergy informed ORS that it was not aware of any customer complaints due to lack of online credit card bill payment or access to a 24-hour customer

<sup>2</sup> Direct Testimony of Keith Parnell, p.4 lines 9-10.

<sup>3</sup> Revised Direct Testimony of Craig Sorensen, p.4 lines 4-6.

1 service team. Synergy also noted that it was not aware of any instance where a customer  
2 had received untimely service by contacting the current after-hours customer service.<sup>4</sup>

3 SCWU further claims that it is a larger utility than Synergy and equally or more  
4 capable than Synergy in providing wastewater services. In support of this claim, SCWU  
5 asserts it has the necessary capital for sustainable, efficient operations and, as part of the  
6 SouthWest family, has access to specialists in information technology ("IT"), human  
7 resources, customer service, finance, engineering, construction, and strategic  
8 management.<sup>5</sup> However, SCWU fails to identify in its Application or direct testimony the  
9 precise operational changes it plans to make to the current business processes or utility  
10 infrastructure to deploy capital or how it will leverage the specialists to provide specific  
11 benefits to the customers. The Application and Joint Applicants' direct testimonies also do  
12 not provide estimates of cost savings or management improvements that will accrue to the  
13 benefit of the customers. Furthermore, SCWU declined to provide ORS with details about  
14 how the completed sale transaction will result in quantifiable service improvements,  
15 reduced utility costs, or savings.<sup>6</sup> Similarly, SCWU claims the customers will not be  
16 materially affected by this transaction but did not perform any cost studies or analyses to  
17 support the assertion that customers will not be harmed by the sale or that customers will  
18 receive improvements in reliability and resiliency.<sup>7</sup>

19 **Q. WHAT IS A UTILITY PLANT ACQUISITION ADJUSTMENT AND HOW CAN A**  
20 **UTILITY PLANT ACQUISITION ADJUSTMENT IMPACT CUSTOMERS?**

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<sup>4</sup> Joint Applicants Response to AIR 1-18.

<sup>5</sup> Revised Direct Testimony of Craig Sorensen, pp. 3-4.

<sup>6</sup> Joint Applicants Response to AIR 1-14.

<sup>7</sup> Revised Direct Testimony of Craig Sorensen, p. 4 lines 2-3 and Joint Applicants Response to AIR 1-21.

1 A. For ratemaking purposes, both Synergy and SCWU are required to keep their books  
2 and records in compliance with the NARUC Uniform System of Accounts (“USOA”) (S.C.  
3 Code Reg. 103-517). The NARUC USOA provides specific instructions as to how a Class  
4 A wastewater utility is to properly record utility plant and the cost of an acquisition when  
5 the utility plant is acquired by purchase, merger, consolidation, liquidation or otherwise. A  
6 Utility Plant Acquisition Adjustment (known as “goodwill” in non-utility industries) is  
7 necessary when the purchase price paid by the acquiring utility is greater or less than the  
8 depreciated original cost of the utility plant. If the purchase price exceeds the depreciated  
9 original cost of the utility plant, which is similar to the transaction proposed by the Joint  
10 Applicants, the amount above the original cost of the rate base valuation is recorded as a  
11 Utility Plant Acquisition Adjustment in accordance with the instructions of NARUC  
12 USOA Account 114.

13 In general, if a Utility Plant Acquisition Adjustment is allowed for ratemaking  
14 purposes, it will provide the acquiring utility favorable rate base treatment and leads to  
15 increased rate base solely due to the change of utility ownership. Historically, this  
16 Commission has held the purchase of a utility system at a premium or discount should not  
17 impact the value of a utility’s rate base. See, e.g., Georgia Water and Well Service, Inc.,  
18 Order No. 2004-175 in Docket 2003-295-W; Carolina Water Service, Inc., Order No. 2008-  
19 855 in Docket No. 2006-92-WS; Chem-Nuclear Systems, LLC., Order No. 2001-630 in  
20 Docket No. 2000-366-A. Due to the historical disallowance of Utility Plant Acquisition  
21 Adjustments, the acquiring utility may transfer the goodwill to the non-utility parent  
22 company.

23 **Q. WILL THE TRANSACTION RESULT IN AN ACQUISITION ADJUSTMENT?**



1 A. Yes. The purchase price according to the Application Exhibit C Asset Purchase  
2 Agreement (“APA”) (page 1) is [REDACTED]. SCWU indicates it will fund the acquisition  
3 via a combination of short-term intercompany advances and an equity infusion from  
4 SouthWest.<sup>8</sup> The estimated total amount of net utility plant on the books of Synergy is  
5 approximately [REDACTED]. The estimated acquisition premium (goodwill or Utility Plant  
6 Acquisition Adjustment) will be approximately [REDACTED].<sup>9</sup> It is unclear if the acquisition  
7 premium or goodwill will be recorded on the books of SouthWest or SCWU; however,  
8 SCWU indicates a Utility Plant Acquisition Adjustment will not be included in the  
9 calculation of SCWU’s rate base.<sup>10</sup>

10 **Q. EVEN THOUGH SCWU STATES IT WILL NOT INCLUDE THE UTILITY**  
11 **PLANT ACQUISITION ADJUSTMENT OR GOODWILL IN RATE BASE, ARE**  
12 **THERE OTHER FINANCIAL IMPACTS TO SCWU CUSTOMERS?**

13 Yes. In response to ORS’s discovery, SCWU indicated that the purchase price for  
14 Synergy is more than double the value of the utility plant net of depreciation. In order to  
15 complete this purchase, SCWU intends to rely on an equity infusion from SouthWest. It is  
16 important to note that the APA Exhibit C identifies several capital asset repairs that need  
17 to be made to the system. The equity capital deployed by SouthWest therefore could be  
18 used to make the needed repairs and replacements to the wastewater collection system for  
19 the benefit of customers. As a result of the infrastructure repair and replacement, SCWU’s

<sup>8</sup> Joint Applicants Responses to AIR 1-20, 2-6, and 2-7.

<sup>9</sup> Joint Applicants Response to AIR 1-35.

<sup>10</sup> Revised Direct Testimony of Craig Sorensen, p.5 lines 10-11 and Application Item 14.

rate base will increase. As the transaction is structured, the owners of Synergy and SCWU could benefit greatly from the proposed sale and transfer.

**Q. HOW COULD SOUTHWEST BENEFIT FROM THE GOODWILL ASSOCIATED WITH ITS RECENT ACQUISITIONS IN SOUTH CAROLINA?**

A. [REDACTED]  
[REDACTED]  
[REDACTED]. The Commission traditionally embeds the federal and state tax rates (currently 27 %) for ratemaking purposes. Therefore, when SouthWest files a consolidated tax return including all of its operating subsidiaries, SouthWest will benefit from the tax savings but the customers of SCWU will not receive the benefit from the savings from the tax deduction provided by the goodwill generated by the acquisition of Synergy.

**Q. PLEASE DISCUSS THE ADDITIONAL EXPENSES CUSTOMERS MAY INCUR AS A RESULT OF THE SALE.**

A. Based on the limited information provided by the Joint Applicants in discovery, ORS determined, at a minimum, the customers will see additional expenses as a result of the sale. Specifically, SCWU estimated that, in 2020, Synergy customers would have incurred approximately \$[REDACTED] in additional expenses as a result of the allocation of corporate overhead expenses from SouthWest to SCWU. <sup>11</sup> Therefore, the customers will incur additional corporate overhead allocations as a result of the acquisition.

Also, the APA states that the current owner will continue employment with SCWU following the asset purchase. Specifically, the APA states:

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<sup>11</sup> Joint Applicants Responses to AIR 1-9 and 2-1

Mr. Parnell shall have executed and delivered to Buyer an employment agreement with Buyer's affiliate SouthWest Water Company, containing customary and reasonable terms and including (i) an employment term of no less than one year following the Closing, (ii) a starting salary of no less than [REDACTED] and (iii) benefits no less favorable to Mr. Parnell than the benefits given to similarly situated within SouthWest Water Company.<sup>12</sup>

Based on this Employment Agreement clause, it appears that Synergy's customers will experience additional expenses as a result of Mr. Parnell's employment, which are services Mr. Parnell currently provides to Synergy as an owner without additional compensation. This amount would be in addition to the costs of any specialists that SCWU or SouthWest also propose to use to operate the system.

SCWU further stated it may seek rate recovery of the Transition costs associated with the Synergy acquisition. Transition costs are generally those costs arising from the activities necessary to integrate the operations of Synergy into SCWU. Examples of Transition costs include, but are not limited to, those costs related to the integration of financial, IT, human resource, billing, accounting, and telecommunications systems and processes. Other examples of Transition costs may include, but are not limited to, severance payments to employees, costs related to changes to signage, the cost of transitioning employees to post-merger employee benefit plans and legal fees. Although Synergy and SCWU did not provide an estimate of these costs, such Transition costs can be substantial. These costs also would not otherwise exist except for the acquisition and it is ORS's position that transition costs have little or no benefit to the customer.

In addition, it is possible that SCWU may file for a general rate case soon after the acquisition is complete. Synergy's last general rate case was in Docket No. 2017-28-S and

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<sup>12</sup> Part 11.(a)x. of the APA.

1 was based on a Test Year ending June 30, 2017, which was over four years ago. SCWU  
2 therefore may seek to increase customer rates following the acquisition closing for the  
3 purpose of recovering costs attributed to the acquisition such as new corporate allocation  
4 costs, related labor expenses, transition costs, and any changes in cost of capital.

5 **Q. PLEASE IDENTIFY CONDITIONS THAT ORS RECOMMENDS BE**  
6 **INCORPORATED INTO ANY APPROVAL OF THE SALE PROPOSED BY THE**  
7 **JOINT APPLICANTS.**

8 A. In order to mitigate the risk of these additional costs and to provide customers  
9 quantifiable merger efficiencies and, in addition to the other recommendations I discuss  
10 below, ORS recommends that the Commission requires the acquisition, if approved, to be  
11 subject to following Merger Conditions:

- 12 1. SCWU shall not recover or seek to recover from its customers, in this or any  
13 future proceeding, any acquisition premium (goodwill) costs, transition costs or  
14 transaction costs associated with the sale of assets, facilities, territories and  
15 certificates of public convenience and necessity, or any other costs incurred in  
16 connection with the consummation of the Agreement or the process of  
17 developing and obtaining approval of the Application. The term Acquisition  
18 Adjustment or Goodwill is defined by the NARUC published 1996 USOA for  
19 Class A Wastewater Utilities, account 114 – Utility Plant Acquisition  
20 Adjustments and that any amount booked to account 114 – Utility Plant  
21 Acquisition Adjustments will be written off to expense and excluded from cost  
22 of service. SCWU shall use the accounting instructions prescribed in Section  
23 21 Utility Plant – Purchased to record the acquisition.
- 24 2. Should SCWU seek rate recovery of any expenses related to the employment  
25 of the current shareholders of Synergy in any future proceeding, the  
26 Commission and ORS shall have the right to review and make  
27 recommendations related to the expenses in those future proceedings. Whether  
28 such expenses shall be allowed to be recovered by SCWU through rates will be  
29 determined at that time.
- 30 3. The SouthWest Cost Allocation Manual will be reviewed for prudence in a  
31 future proceeding, and ORS is not precluded from addressing the

reasonableness of the SouthWest Cost Allocation Manual in any future proceeding for any current or future regulated SouthWest subsidiary.

4. SCWU shall not lend cash or other capital directly to SouthWest or any other subsidiary entity of SouthWest except for routine and prudent cash management practices in accordance with Appendix A Cash Management Services incorporated in Commission Order No. 2021-93.

5. SCWU shall not be the guarantor of any debt of SouthWest or any other SouthWest affiliate unless the debt is incurred for purposes specific to the SCWU system and operations.

6. SCWU shall provide customers with the service enhancements listed in Item 10 of the Application within sixty (60) days of the acquisition closing. These service enhancements include access to a 24-hour customer service team and online credit card bill pay.

7. SCWU and SouthWest shall provide the Commission and ORS with access to all books and records pertaining to the affiliated transactions between or among SouthWest, SCWU, and/or any other SouthWest affiliate.

8. SCWU shall maintain its accounting books and records in accordance with the NARUC USOA.

9. SCWU shall maintain separate accounting books and records for the three Commission-approved service territories (Synergy, Harbor Island, and T.J. Barnwell) owned and managed by SCWU.

10. SCWU shall maintain separate books and records by Commission-approved service territory and maintain separate accounting books and records by water and wastewater utility service.

11. SCWU shall, in its next base rate filing, comply with Commission Order No. 2018-308, in Docket No. 2017-381-A and include the tax impacts of the 2017 Tax Cuts and Jobs Act as a component of the Company's cost of service.

12. SCWU shall maintain performance bonds currently on file with the Commission in the amounts of \$350,000 for sewer operations and \$350,000 for water operations in compliance with S.C. Code Ann. § 58-5-720.

13. SCWU shall maintain its customer service at no less than current levels and monitor service and performance following the sale to ensure that customer service levels do not degrade for reasons attributable to the sale.

14. SCWU shall maintain the environmental monitoring, operations, and maintenance programs at or above current levels.

**Q. DOES ORS HAVE A POSITION REGARDING THE FILING OF A GENERAL RATE CASE BY SCWU FOLLOWING THE ASSET SALE AND TRANSFER, IF APPROVED?**

A. Yes. ORS takes the position that SCWU should delay filing a general rate case for customers located in the Synergy service territory until after July 1, 2023, such that new rates will not be effective prior to January 1, 2024, except where necessary due to unforeseen extraordinary economic or financial conditions which may include, but not be limited to, changes in tax rates. This would provide the opportunity for SCWU to ascertain the revenues and expenses of the utility following the asset sale and transfer and would protect customers from immediate rate increases that may result from the proposed transaction.

**Customer Complaints – Northwood HOA**

**Q. AS IT PERTAINS TO THIS PROCEEDING, DOES ORS HAVE ANY CONCERNS ABOUT SPECIFIC SUBDIVISIONS CURRENTLY SERVED BY SYNERGY?**

A. Yes. ORS believes that the Synergy customers in the Northwood Estates subdivision (“Northwood”) in Orangeburg County should be considered as part of the proposed acquisition.

**Q. PLEASE EXPLAIN THE WASTEWATER COLLECTION SERVICES SYNERGY PROVIDES TO ITS NORTHWOOD CUSTOMERS.**

A. As of July 31, 2021, Synergy provided wastewater collection services to 103 customers in Northwood and transfers the collected wastewater to the City of Orangeburg Department of Public Utilities (“Orangeburg DPU”) for treatment. Orangeburg DPU bills Synergy for the wastewater treatment services pursuant to an amended wholesale

wastewater agreement, which was approved by the Commission in Order No. 2018-364. Synergy then passes wastewater treatment charges through to the Northwood customers without markup. Based on Commission Order No. 2018-369, Synergy bills residential customers in Northwood as follows:

Synergy Monthly Service Charge:	\$27.50
Orangeburg DPU Wholesale Service Charge:	\$25.78
Orangeburg DPU Commodity/Capacity Charge:	\$ 2.54/100 cf
<b>Average Monthly Residential Customer Bill:<sup>13</sup></b>	<b>\$87.93</b>

A review of the Commission's Docket Management System indicates the interconnection and wholesale contract with Orangeburg DPU was approved in 1999. Since 2008, the Orangeburg DPU Service Charge passed through to Northwood customers has increased from \$9.00 per month to \$25.78 per month. The Orangeburg DPU Wholesale Service Charge has increased 14.34% annually.

**Q. PLEASE PROVIDE A SUMMARY AND OVERVIEW OF THE CUSTOMER COMPLAINTS RECEIVED BY ORS FROM THE NORTHWOOD CUSTOMERS AND THE NORTHWOOD HOA.**

A. Customers that live in Northwood have contacted ORS to complain about high wastewater bills and maintenance of the wastewater collection system serving their subdivision. From January 1, 2018, ORS has received 13 customer complaints related to high utility bills and maintenance of the collection system.

<sup>13</sup> Average Monthly Residential Customer Bill is calculated using an average customer billed volumetric usage of 1,364 cf per month sourced from the Joint Applicants Response to ORS AIR 3-1.

**Q. PLEASE SUMMARIZE THE WASTEWATER COLLECTION SYSTEM MAINTENANCE CONCERNS EXPRESSED TO ORS BY NORTHWOOD CUSTOMERS.**

A. Northwood customers have complained to ORS that poor collection system maintenance has caused increased monthly bills. In previous filings with the Commission, the Northwood HOA has alleged the Synergy collection system experiences instances of high inflow and infiltration (“I & I”) during certain months with significant rainfall in Orangeburg county.

**Q. PLEASE EXPLAIN HOW SYNERGY MITIGATES THE IMPACT OF EXPENSES CAUSED BY EXCESSIVE I & I ON NORTHWOOD CUSTOMER.**

A. As a means of limiting the impact of expenses caused by excessive I & I on the Northwood system, Synergy currently caps the maximum level of the Orangeburg DPU Commodity/Capacity Charge billed to Northwood customers at 400 gallons per day or 12,000 gallons per month. Synergy provides ORS with a monthly report detailing the Northwood pass-through, which reflects Orangeburg DPU’s monthly bills rendered to Synergy compared to what Synergy bills its Northwood customers. As shown in these monthly reports Synergy routinely caps Northwood customer bills at 400 gallons per day in the months of December through May of each year. For the time period of January 2019 through July 2021, Synergy reports it experienced a loss of over \$59,000 related to unrecovered Orangeburg DPU treatment expenses.<sup>14</sup>

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<sup>14</sup> Joint Applicants Response to AIR 3-1.



**Q. PLEASE SUMMARIZE THE EFFORTS UNDERTAKEN BY ORS TO RESOLVE THE COMPLAINTS OF THE NORTHWOOD HOA AND CUSTOMERS.**

A. Beginning as early as 2013, the Northwood HOA, Northwood customers, and members of the South Carolina General Assembly have contacted ORS to investigate high bills experienced by Northwood customers. In addition, members of the South Carolina General Assembly requested ORS to identify options for transfer of the assets and customers to the Northwood HOA, Orangeburg County, or Orangeburg DPU. In response to these requests for assistance and investigation, ORS met on several occasions with Northwood HOA, Northwood customers, Synergy, Orangeburg County, Orangeburg DPU, SCDHEC and members of the South Carolina General Assembly. In addition, ORS analyzed the collection system operations, Synergy and Orangeburg DPU billing practices, mitigation strategies, options for transfer of the collection system to a local government, and financing options to support a transfer of the collection system to a receptive local government. Over time, ORS analyzed the following options that may have potential benefits to the Northwood customers:

<b><u>Options Examined by ORS</u></b>	<b><u>Outcome</u></b>
Repair or replace the collection system	Synergy completed upgrade to collection system mains and manholes.
Transfer of the collection system and operations to the Northwoods HOA.	Synergy offered to convey system.
Transfer of collection system and operations to Orangeburg County.	Synergy offered to convey system.
Transfer of the collection system and operations to Orangeburg DPU.	SCWU offer to convey system at no cost.
Appointment of a receiver under S.C. Code Ann § 58-5-730.	ORS determined no basis for appointment of receiver under § 58-5-730.

Annexation of Northwood Estates into the City of Orangeburg.	Northwood HOA rejected annexation option.
Financing options for Orangeburg County or Orangeburg DPU from the State Revolving Fund and/or SC Rural Infrastructure Authority.	ORS identified grant and load options for local government. No applications were filed by local government. Synergy and SCWU are not eligible for these financing options.
Adjustment in the Wholesale contract rate for Northwood HOA.	ORS understands that negotiations are ongoing. The Commission has no jurisdiction over Orangeburg DPU wholesale rates.
Independent assessment of the condition of the collection system serving Northwood.	Completed by AECOM for Orangeburg County and Orangeburg DPU. Synergy provided a responsive assessment completed by B.P. Barber.

1    **Q.    ARE YOU AWARE OF ANY RECENT DISCUSSIONS REGARDING THE**  
2    **TRANSFER OF THE NORTHWOOD COLLECTION SYSTEM TO A**  
3    **GOVERNMENTAL ENTITY?**

4    A.            Yes. As discussed by Joint Applicants Witness Craig Sorensen, SCWU has  
5    proposed to donate the system, at no cost, to Orangeburg DPU immediately following the  
6    closing of this transaction, assuming the acquisition is approved by the Commission.

7    **Q.    DOES ORS AGREE THAT TRANSFERRING THE NORTHWOOD SYSTEM TO**  
8    **ORANGEBURG DPU IS IN THE BEST INTEREST OF THE NORTHWOOD**  
9    **CUSTOMERS?**

10   A.            Yes. If SCWU conveys the collection system and customers to Orangeburg DPU,  
11   the Northwood customers would experience immediate relief from the Synergy Monthly  
12   Service Charge of \$27.50. The customers also would experience lower monthly bills  
13   because Orangeburg DPU bills wastewater customers based on monthly water usage.  
14   Orangeburg DPU's practice of calculating customer bills for wastewater service based on

1 actual water usage would insulate customers from the financial impact of I & I. Northwood  
2 customers currently receive water service from Orangeburg DPU. In addition, the  
3 conveyance of the collection system would not have a material negative impact on the other  
4 Synergy customers.

5 **Q. HAS ORANGEBURG DPU AGREED TO ACCEPT THE NORTHWOOD**  
6 **SYSTEM?**

7 A. It is my understanding that the Joint Applicants have engaged in fruitful  
8 conversations regarding the transfer of the Northwood system to Orangeburg DPU and  
9 Orangeburg DPU is seeking additional funding necessary to upgrade the collection system  
10 following its transfer. It is unclear whether the funding or the transfer agreement have been  
11 finalized.

12 **Q. GIVEN THE DIFFICULTIES EXPERIENCED BY NORTHWOOD CUSTOMERS**  
13 **IN THE PAST AND THE COST SAVINGS THAT THEY WOULD REALIZE**  
14 **FOLLOWING A TRANSFER OF THE SYSTEM TO ORANGEBURG DPU, DO**  
15 **YOU HAVE ANY RECOMMENDATIONS REGARDING THIS MATTER?**

16 A. Yes. While it is true the Commission cannot require SCWU to convey the collection  
17 system to Orangeburg DPU, ORS recommends the Commission delay final approval of the  
18 sale until such a time as Orangeburg DPU and SCWU execute a final agreement to transfer  
19 the assets and customers.

20 **Q. IN THE EVENT ORANGEBURG DPU AND SCWU DO NOT REACH**  
21 **AGREEMENT TO TRANSFER THE ASSETS AND THE CUSTOMERS, WHAT**  
22 **ALTERNATIVES CAN THE COMMISSION CONSIDER TO MITIGATE THE**  
23 **HIGH BILLS EXPERIENCED BY NORTHWOOD CUSTOMERS?**

1 A. Should Orangeburg DPU and SCWU be unable to reach an agreement to transfer  
2 the collection system and customers, ORS recommends additional Merger Conditions to  
3 ensure SCWU takes appropriate actions to mitigate the high bills experienced by  
4 Northwood customers. Specifically, ORS recommends the following conditions to protect  
5 the customers of SCWU:

- 6 1. SCWU shall continue to cap the maximum level of the Orangeburg DPU  
7 Commodity/Capacity Charge billed to Northwood customers at 400 gallons  
8 per day, until such a time as the collection system improvements are  
9 completed and the Commission approves the cessation of the  
10 Commodity/Capacity Charge billing cap. SCWU shall not seek recovery of  
11 the unrecovered wholesale Orangeburg treatment expenses from  
12 customers.<sup>15</sup>
- 13 2. SCWU shall complete an independent engineering assessment and  
14 feasibility study of the Northwood collection system within 12 months from  
15 the date of closing. The independent engineering assessment and feasibility  
16 study shall be funded solely by the owners of SCWU. The independent  
17 engineering assessment and feasibility study shall be filed with the  
18 Commission and ORS within 30 days of completion of the independent  
19 engineering assessment and feasibility study.
- 20 3. SCWU shall complete the collection system improvements identified by the  
21 independent engineering assessment and feasibility study. SCWU shall  
22 begin improvement activity within 12 months of completion of the  
23 collection system and feasibility study. SCWU shall file with the  
24 Commission and ORS an estimated project timeline for completion and  
25 provide quarterly progress reports that detail the specific improvements,  
26 location of improvements, a breakdown of costs incurred, and any other  
27 information deemed necessary. The collection system improvements shall  
28 be funded by the owners of SCWU and excluded from the calculation of  
29 SCWU's cost of capital and rate base.

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<sup>15</sup> In response to ORS discovery (ORS AIR 1-51.c), SCWU agrees to continue to cap the maximum level of the Orangeburg DPU Commodity/Capacity Charge.

**Summary of Recommendations**

**Q. PLEASE PROVIDE A SUMMARY OF THE ORS RECOMMENDATIONS.**

A. ORS recognizes that SCWU offers financial resources and economies of scale that eventually may result in improved service and lower costs to customers, subject to the various additional conditions ORS recommends. Some of these conditions address the recovery of costs related to the transaction and transition as well as costs that may be incurred in the future. Others include conditions regarding affiliate transactions, including transactions with other SouthWest affiliates that are not regulated by the Commission. Many of the ORS recommendations are additional conditions that are necessary to protect customers from increased costs related to the acquisition and to improve service.

ORS does not oppose the proposed sale, subject to the commitments and conditions discussed in more detail above and which ORS asserts are necessary to ensure the public interest is protected and customers are not harmed.:

1. SCWU shall not recover or seek to recover from its customers, in this or any future proceeding, any acquisition premium (goodwill) costs, transition costs or transaction costs associated with the sale of assets, facilities, territories and certificates of public convenience and necessity, or any other costs incurred in connection with the consummation of the Agreement or the process of developing and obtaining approval of the Application. The term Acquisition Adjustment or Goodwill is defined by the NARUC published 1996 USOA for Class A Wastewater Utilities, account 114 – Utility Plant Acquisition Adjustments and that any amount booked to account 114 – Utility Plant Acquisition Adjustments will be written off to expense and excluded from cost of service. SCWU shall use the accounting instructions prescribed in Section 21 Utility Plant – Purchased to record the acquisition.
2. Should SCWU seek rate recovery of any expenses related to the employment of the current shareholders of Synergy in any future proceeding, the Commission and ORS shall have the right to review and make recommendations related to the expenses in those future proceedings. Whether such expenses shall be allowed to be recovered by SCWU through rates will be determined at that time.

3. The SouthWest Cost Allocation Manual will be reviewed for prudence in a future proceeding, and ORS is not precluded from addressing the reasonableness of the SouthWest Cost Allocation Manual in any future proceeding for any current or future regulated SouthWest subsidiary.
4. SCWU shall not lend cash or other capital directly to SouthWest or any other subsidiary entity of SouthWest except for routine and prudent cash management practices in accordance with Appendix A Cash Management Services incorporated in Commission Order No. 2021-93.
5. SCWU shall not be the guarantor of any debt of SouthWest or any other SouthWest affiliate unless the debt is incurred for purposes specific to the SCWU system and operations.
6. SCWU shall provide customers with the service enhancements listed in Item 10 of the Application within sixty (60) days of the acquisition closing. These service enhancements include access to a 24-hour customer service team and online credit card bill pay.
7. SCWU and SouthWest shall provide the Commission and ORS with access to all books and records pertaining to the affiliated transactions between or among SouthWest, SCWU, and/or any other SouthWest affiliate.
8. SCWU shall maintain its accounting books and records in accordance with the NARUC USOA.
9. SCWU shall maintain separate accounting books and records for the three Commission-approved service territories (Synergy, Harbor Island, and T.J. Barnwell) owned and managed by SCWU.
10. SCWU shall maintain separate books and records by Commission-approved service territory and maintain separate accounting books and records by water and wastewater utility service.
11. SCWU shall, in its next base rate filing, comply with Commission Order No. 2018-308, in Docket No. 2017-381-A and include the tax impacts of the 2017 Tax Cuts and Jobs Act as a component of the Company's cost of service.
12. SCWU shall maintain performance bonds currently on file with the Commission in the amounts of \$350,000 for sewer operations and \$350,000 for water operations in compliance with S.C. Code Ann. § 58-5-720.
13. SCWU shall maintain its customer service at no less than current levels and monitor service and performance following the sale to ensure that customer service levels do not degrade for reasons attributable to the sale.

1 14. SCWU shall maintain the environmental monitoring, operations, and  
2 maintenance programs at or above current levels.

3 15. SCWU shall continue to cap the maximum level of the Orangeburg DPU  
4 Commodity/Capacity Charge billed to Northwood customers at 400 gallons  
5 per day, until such a time as the collection system improvements are completed  
6 and the Commission approves the cessation of the Commodity/Capacity  
7 Charge billing cap. SCWU shall not seek recovery of the unrecovered  
8 wholesale Orangeburg treatment expenses from customers.

9 16. SCWU shall complete an independent engineering assessment and feasibility  
10 study of the Northwood collection system within 12 months from the date of  
11 closing. The independent engineering assessment and feasibility study shall be  
12 funded solely by the owners of SCWU. The independent engineering  
13 assessment and feasibility study shall be filed with the Commission and ORS  
14 within 30 days of completion of the independent engineering assessment and  
15 feasibility study.

16 17. SCWU shall complete the collection system improvements identified by the  
17 independent engineering assessment and feasibility study. SCWU shall begin  
18 improvement activity within 12 months of completion of the collection system  
19 and feasibility study. SCWU shall file with the Commission and ORS an  
20 estimated project timeline for completion and provide quarterly progress  
21 reports that detail the specific improvements, location of improvements, a  
22 breakdown of costs incurred, and any other information deemed necessary. The  
23 collection system improvements shall be funded by the owners of SCWU and  
24 excluded from the calculation of SCWU's cost of capital and rate base.

25 ORS also takes the position that SCWU should not file a general rate case to impact  
26 customers located in the Synergy service territory prior to July 1, 2023, such that new rates  
27 will not be effective prior to January 1, 2024, except where necessary due to unforeseen  
28 extraordinary economic or financial conditions which may include, but not be limited to,  
29 changes in tax rates.

30 **Q. WILL YOU UPDATE YOUR DIRECT TESTIMONY BASED ON INFORMATION**  
31 **THAT BECOMES AVAILABLE?**

1 A. Yes. ORS fully reserves the right to revise its recommendations via supplemental  
2 testimony should new information become available not previously provided by the Joint  
3 Applicants, or other sources, become available.

4 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

5 A. Yes, it does.